

ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES, 2015-16

**University of California
Office of Ethics, Compliance & Audit Services**

Office of Ethics, Compliance & Audit Services

Annual Report on Internal Audit Activities, 2015-16

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I. EXECUTIVE SUMMARY

Introduction

In Fiscal Year 2015-16, Internal Audit continued its efforts to address emerging and strategic risks while providing ongoing assurance to our stakeholders that fundamental internal controls are operating effectively across the UC system.

This year, we placed increased emphasis on aligning our advisory and assurance services with the priorities of the institution to help ensure the success of key strategic initiatives. While it is always important for Internal Audit to provide assurance to our stakeholders that risks are being appropriately managed across the institution, we also recognize that we serve an important role in providing insight and candid feedback as new initiatives and programs are being designed and planned. In this sense, it is our goal to be viewed by management as a strategic adviser and problem solver rather than simply an enforcer.

This report highlights the outcomes of Internal Audit activities and controls assurance in Fiscal Year (FY) 2015-16 which demonstrate our assistance to management to help identify and address significant risks and drive efficiencies in using our resources. Statistical information on utilization of Internal Audit's resources and other performance metrics is also provided.

This Annual Report on Internal Audit Activities contains the following sections:

Systemwide Audit Results – Results of the audits performed with a common focus and scope of work (by the local Internal Audit department at each University location). (Page 4)

Significant and Recurrent Internal Control Issues – Summarized from the body of system and location Internal Audit work performed during this fiscal year. (Page 5)

Systemwide Activity, Programs and Initiatives – An update on Internal Audit's systemwide activity. (Page 9)

Improvements in Internal Audit Methodology, Processes and Systems – An overview of improvements implemented in governance, methodology and systems. (Page 10)

FY 2015-16 Statistical Highlights

During FY 2015-16, the UC Internal Audit Program:

- Completed 97% of the Regents-approved Internal Audit plan (goal 70%).
- Completed audit, advisory services and investigation projects resulting in 393 reports.
- Produced 1,001 recommendations for improvements to governance, risk management and control processes with corresponding agreed-upon Management Corrective Actions (MCAs).
- Validated that 1,232 MCAs were completed by management.
- Operated at an 85% efficiency level (goal 85%)

Summary of MCA balances and past due status:

Summary of MCA Balances and Past Due Status	
Beginning MCAs (open at start of FY 2015-16)	762
Ending MCAs (open at end of FY 2015-16)	531
Past Due MCAs	
High-risk past due MCAs	16
Medium/low risk past due MCAs as of June 30, 2016	179

Summary and Conclusions

We identified no financial control issues that we believed to represent material deficiencies in internal controls to the University system as a whole. Additionally, we identified no circumstances in which we believe that management's decisions resulted in the acceptance of unreasonable levels of risk.

Further, based on our FY 2015-16 work, we can assert the following as being generally true with no reportable exceptions:

1. Management of the University is cognizant of their responsibility for internal controls and takes seriously the need for controls and accountability.
2. There is respect for the Internal Audit Program objectives, a high level of cooperation is received, and there is no interference with either the accomplishment of our tasks and/or our responsibilities to report to the Regents.
3. Management actively participates in the identification of risks and works collaboratively with internal auditors to address issues raised during audits, advisory services and investigations.
4. Management is comfortable seeking out Internal Audit for advice and consultation on matters with internal control implications.
5. Matters of importance are reported to the Regents.
6. Although we did not identify any material control deficiencies, there are opportunities for the University to implement more effective controls in a number of areas.

II. INTERNAL AUDIT PROGRAM – RESULTS & ANALYSIS

A. Systemwide Audit Results

Systemwide audits are conducted for the purpose of reviewing an existing or potential issue across the University system to identify and address common risk areas. Routinely, these audits are performed at the request of the systemwide audit office, the Regents and/or the President, have a common focus and scope of work and usually are conducted by the local Internal Audit department at each University location. Overall results may be summarized systemwide with key themes identified. Follow-up to the observations is done at both the system and location levels. The following is an overview of systemwide audits performed.

Student Health and Counseling Centers – We initiated a systemwide self-assessment of the Student Health and Counseling Centers (SH&CCs) to assess operations for the risk areas covered in the 2014 audit of the SH&CCs. The Office of Ethics, Compliance and Audit Services engaged a subject matter consultant to aid with the self-assessment focusing on the areas of Governance, Credentialing and Privileging, Peer Review, Information Security and Privacy, Quality Improvement Studies, Electronic Health Record System, Clinical Documentation, Medication and Vaccine Management, Provision of Care and Occupational Safety and Health. We will report on the self-assessment results in the next fiscal year.

Executive Travel and Executive Compensation Reporting – Periodic reviews of executive travel expenses and executive compensation reporting have been routine for the last nine years. This year, relatively minor exceptions were noted and were corrected at the local level. No issues were identified that required action from a systemwide perspective.

Construction – We conducted a systemwide review of construction to assess the adequacy of internal controls and construction management processes on select major capital projects in the following areas: bidding and award process, University Controlled Insurance Program (UCIP), change order execution, and funding restrictions and requirements. The primary theme in issues observed was the adequacy of documentation supporting construction change orders. Several campuses also identified the need for a more defined process to ensure that funding restrictions and requirements are communicated between the various stakeholders and responsibilities for monitoring compliance are clarified.

B. Significant and Recurrent Internal Control Issues

From the body of audit work performed during the year, including investigations, the following are the most significant and recurrent control issues. Many of these are the subject of specific management corrective actions in the environment where the issues were identified; others are the subject of broader systemwide initiatives, while still others are endemic and require continual attention by management.

IT Security and Information Privacy

Observation: Recent high profile cybersecurity incidents within UC and other organizations has brought a heightened sense of awareness and focus on cybersecurity risk and the importance of effective IT security controls. Internal audit has continued to place significant emphasis on evaluating IT security programs and controls in its annual audit plan. As in prior years, we continue to identify control weaknesses related to IT security and protection of sensitive and restricted information, including inadequate system access controls, unauthorized access to internal networks and systems, lack of encryption, insufficient physical controls over IT equipment, unpatched security vulnerabilities, mobile device security and third party services including cloud services. It is an ongoing challenge to ensure all end users are aware of IT security risks and appropriate mitigation measures. The decentralized nature of IT infrastructure and IT organizations, as well as increased utilization of third party IT service providers, makes it challenging to ensure controls are appropriately in place across all environments within the organization.

Management's Response: A number of significant efforts are underway at the system level to address IT security risks, including a comprehensive cybersecurity risk assessment, systemwide vulnerability assessments and penetration testing, cybersecurity awareness training for all faculty and staff, new cybersecurity incident escalation procedures and enhanced monitoring of network activity.

Internal Audit's Involvement: Internal Audit has continued our support of IT security efforts across the system. We have led multiple projects in support of the President's cybersecurity initiative, including a systemwide cybersecurity risk assessment based on the NIST Cybersecurity Framework which is scheduled to be completed in early 2017 and the systemwide vulnerability assessment and penetration testing project. We coordinated the deployment of annual cybersecurity awareness training for all faculty and staff across the system and facilitate annual technical IT security training for IT and information security practitioners across the UC system. We continue to work closely with other groups, such as Compliance, Risk Services, General Counsel, and Information Security to advance, refine and improve initiatives and processes related to cybersecurity, such as threat detection and identification, new policy development, and incident response and escalation.

Internal Audit initiated the development of a centralized systemwide Cybersecurity Audit Team to enhance our auditing capabilities in this increasingly significant risk area. The Cybersecurity Audit Team will be deployed to the campuses to deliver specialized cybersecurity audits and advisory services and will serve to provide independent assurance and advice on systemwide cybersecurity initiatives. The team will initially be comprised of three FTEs—a Cybersecurity Audit Director and two Cybersecurity Audit Specialists. The director position was filled in September 2016 and we are currently recruiting to fill the two specialist positions.

Research Compliance and Clinical Research Billing

Observation: As research compliance requirements continue to become increasingly complex and burdensome, management across the system struggles to maintain compliance with limited resources. Some of the more prominent research compliance risk areas include conflict of interest, laboratory safety, export controls and human subject research. Due to the complexity of clinical research there are inherent risks pertaining to clinical research billing that could result in inaccurate billing and, consequently, potential

violations with government payer regulations/contracts. Improvement is needed to provide reasonable assurance that billing for clinical research activity is accurate, timely and conducted in accordance with policy.

Management's Response: Management's efforts to manage these compliance risks include increased audit reviews, implementation of IT solutions, enhanced escalation processes, sanctions for non-compliance, centralized reporting, enhanced training and communication and improved governance, monitoring and oversight mechanisms.

Internal Audit's Involvement: Internal Audit meets frequently with Research leadership to identify and discuss current research compliance risks. Several campuses have conducted advisory and audit projects focused on research compliance and clinical research billing.

Large-Scale System Implementations

Observation: After a successful initial deployment of UCPATH at the Office of the President, our organization will be working toward a pilot deployment that will involve three additional campus locations and a significant increase in complexity with the inclusion of the academic and health sciences environments. It will become increasingly important to ensure that effective project management, risk management and change management practices are put in place to ensure implementation objectives are met. At the campus level, we continue to observe the effects of the UCPATH Project and other enterprise IT system implementations on the internal control environment as resources are stretched. Like UCPATH many of these system implementations have been initiated to replace outdated existing enterprise systems due to the risks associated with their continued maintenance. While they are very much needed, these large-scale system replacement efforts present significant risks in all aspects of the project, from data conversion and configuration to governance and organizational change management. It is therefore critical that these risks be continuously monitored and managed.

Management's Response: Management has put in place governance structures over key system implementation projects to help ensure the success of these projects. These structures help to ensure that issues and risks are escalated and resolved in a timely manner, leadership is kept apprised of project status, and the right individuals are involved in key decisions when needed. In a phased rollout like UCPATH, management identifies lessons learned from early deployments and accordingly modifies its approach in subsequent deployment efforts.

Internal Audit's Involvement: During these implementations, Internal Audit partners with management to help ensure that best practices are followed, significant risks are appropriately mitigated, effective controls are in place and appropriate measures have been taken to ensure operational readiness for deployment. Internal Audit served in an advisory role to help ensure the successful implementation initial deployment of the new payroll system (UCPATH) at UCOP. Internal Audit has been assisting management in addressing key issues associated with the UCPATH project, including risk assessment and monitoring, governance, operational readiness, future state process design and information security. Internal Audit staff also serve on various UCPATH oversight committees, including the systemwide UCPATH Steering Committee, to provide real-time insight as implementation decisions are being made. In addition to UCPATH, many of our campuses have other ongoing involvement in key IT system implementations, including electronic medical records systems at our health science campuses and several student information systems.

Affiliations, Joint Ventures and Partnerships

Observation: A number of campuses have seen increased risks associated with increased entrepreneurial activity with third parties. In many instances, these new arrangements move forward without adequate due

diligence performed early in the process to address matters such as financial modeling, regulatory risks, conflicts of interest, contractual requirements, division of responsibilities, information security and governance and oversight. Additionally, responsibility and accountability for monitoring agreements are not always clearly defined and/or communicated.

Management's Response: Many locations have implemented more formal processes to ensure new opportunities are appropriately vetted early in the process. New guidance and templates have also been developed to add more structure to the review process and assure consideration of key factors.

Internal Audit's Involvement: Internal Audit has planned projects to review and support affiliation and expansion programs on an ongoing basis. Additionally, Internal Audit provides feedback through participation in governance and oversight committees where issues related to affiliations, joint ventures and partnerships are typically discussed.

Staff Turnover and Succession Planning

Observation: Internal control effectiveness often suffers when turnover occurs in key positions without adequate succession planning and transition of responsibilities. This is a particular concern in large-scale restructuring efforts and staff reductions.

Management's Response: Many UC locations have developed resources to help facilitate succession planning efforts at the departmental level. Additionally, position control processes have been implemented at several locations to add more structure, discipline and oversight of changes in staff, temporary and contract positions.

Internal Audit's Involvement: Internal Audit has assisted in ensuring adequate internal controls are in place by partnering with management as organizational changes are being planned to document existing controls and providing input on future state process design. Internal Audit can also assist in training staff on internal control responsibilities when they transition to new roles.

Financial Monitoring

Observation: At the departmental level, Internal Audit has observed deficiencies in oversight of financial activity, including lack of transparency of unit financial performance, ineffective budget management, incomplete and/or untimely general ledger reconciliations and untimely transaction review.

Management's Response: Management is working to address these issues by implementing new campus-wide financial reporting and monitoring processes, enhancing training efforts and enforcing policy requirements.

Internal Audit's Involvement: Internal Audit has several projects planned at the locations focused on budget and deficit management in FY17. These reviews will evaluate campus roles and responsibilities for monitoring financial activity versus approved budgets, with an emphasis on accountability and process controls, to determine whether any process gaps need to be addressed. Many location Internal Audit departments have also partnered with management to develop and implement continuous monitoring of key financial metrics through the use of data analytics.

Hiring and Onboarding

Observation: Internal Audit has observed increased regulatory risk related to hiring practices and equal employment opportunity. As such, it has become increasingly important that recruiting efforts be properly documented. Additionally, the number of volunteers in our organization has increased, therefore it is

incumbent upon management to ensure that they are properly vetted and their duties and access are limited to the volunteers' scope of responsibilities.

Management's Response: Management has addressed the risks around hiring and onboarding by enhancing and standardizing processes and documentation requirements and increasing monitoring efforts.

Internal Audit's Involvement: Several location Internal Audit departments have either recently completed or have planned for FY17 projects to review processes and controls over the hiring process.

C. Systemwide Activity, Programs and Initiatives

Internal Audit has continued to partner with management to support key initiatives and priorities both at the local and systemwide level. This section highlights some of the key areas in which Internal Audit has provided support.

External Audit Support – Internal Audit continued to serve as external coordinator for several high profile audits conducted by governmental agencies such as the California State Auditor, the National Science Foundation and the National Institutes of Health. The external audit coordinator serves as the central point of contact for the auditors of the external agency, facilitates information requests, informs management of potential audit issues as they arise, and coordinates management responses to audit reports. Internal Audit has also assisted management in performing documentation reviews and control testing in advance of external audit fieldwork to help management anticipate and respond to potential issues that may arise during the external audit. External audit coordination has provided a benefit to the University by driving audit efficiency and ensuring appropriate information is provided to agencies in a responsive and timely manner.

Coordinating Risk Efforts – At both the systemwide and local levels, Internal Audit has been working to identify synergies and coordinate with Compliance and Risk Services on risk assessment and mitigation efforts. In February 2016, representatives from Internal Audit, Compliance and Risk Services attended the first Risk Partners Joint Planning Meeting. The primary objectives of this collaboration are to ensure that roles and responsibilities for risk assessment and monitoring are well defined and effectively communicated to our stakeholders, and to collect and share information as we prioritize our respective activities in a collaborative manner. Additionally, at the systemwide level the risk partners have been working on developing a common risk assessment framework and taxonomy. Once completed, this framework will help achieve consistency in the risk assessment approach across the system, enabling a roll-up capability to better understand risks from a systemwide perspective.

Fair Wage/Fair Work – In support of Presidents Napolitano’s Fair Wage/Fair Work program that requires minimum wage levels for UC employees and service contract employees, Internal Audit developed and implemented compliance requirements for UC’s suppliers subject to the Fair Wage/Fair Work contract provision, including the standards for the annual audit requirements. Going forward, Internal Audit will be performing annual procedures to ensure that the annual audit requirements are being followed.

Audit Internship Programs – A number of our campuses have implemented student internship programs. These programs provide our interns, who are mostly UC undergraduates and graduate students, with practical skills development, related training, and work experience in a professional setting at the University of California. Several audit departments that have experienced staffing and funding issues have used this program to help augment their existing audit resources.

Systemwide Committees – Our systemwide committee involvement includes Lawrence Berkeley National Laboratory’s Contract Assurance Council, the Laboratory Management Council, the Ethics and Audit Committee of the Los Alamos National Security and Lawrence Livermore National Security LLC, UCPATH steering committees, and the Clery Act Compliance Committee. Additionally, Internal Audit personnel actively participate on various committees supporting management initiatives throughout the University system, including committees that address Ethics and Risk, IT Governance, Privacy, data analytics, HIPAA compliance, and new systems development projects.

D. Improvements in Internal Audit Methodology, Processes and Systems

Like many other University departments, Internal Audit operates in an environment of continuous change. To meet the challenges of new and changing regulations, emerging risks and changes to the University environment, Internal Audit must continue to adapt and improve our methodologies, use of technology, communication strategies and subject matter expertise. This section outlines some of the significant improvements we have made in these areas.

Data Analytics and Continuous Monitoring – Local audit departments have been increasing the use of Computer Assisted Auditing Tools (CAATs) to perform data analytics as part of Internal Audit projects and ad hoc special projects. These tools allow auditors to perform analysis on entire data populations to identify anomalies and discrepancies for further investigation, rather than relying on traditional transactional sampling methods. At some locations, internal audit has worked with management to proactively address control issues and transactional outliers by establishing continuous monitoring practices and processes. To facilitate further development in this area, our auditors with specialization in data analytics meet monthly to share information on data analytics application and techniques. Future plans for further development in this area include systemwide audits with significant data analytics components and the establishment of a centralized team to perform routine data analytics procedures on shared administrative systems.

Continuing Education – In January 2016 the Office of Audit Services hosted a two-day All Auditors Forum for all UC Internal Audit staff. Regent Zettel provided opening remarks on the Regents' perspective on internal audit. Our auditors heard from several UC senior leaders on how internal audit can provide value the organization. The core program included an interactive session that focused on critical thinking skills and a case study project that allowed auditors to practice essential skills and techniques such as risk assessment, audit planning, root cause analysis and presentation skills in a team setting. Additionally, we continue to facilitate monthly webinars for our audit staff. These webinars include presentations from external speakers on emerging risk issues as well as internal presentations from our audit staff to share innovative auditing techniques and lessons learned from audit projects. Additionally, we launched a quarterly UC audit newsletter that communicates noteworthy audit results, audit industry news, higher education issues and staff achievements.

Staff and Leadership Development – We continued to implement several initiatives to foster positive morale among our audit staff and help develop them into future leaders. These initiatives included a staff-self assessment methodology and core competency framework to facilitate performance management and a staff recognition program to showcase staff achievements. Our cross-campus mentorship program that was piloted in the prior year for management was expanded this year to include audit staff.

Quality Assurance – Internal audit performs regular reviews of the UC location internal audit departments to ensure that our practices are in compliance with University of California Systemwide Audit Manual, the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing, and the IIA's Code of Ethics. Accordingly, we have developed an Internal Audit quality assurance and improvement program (QAIP) that includes both ongoing and periodic reviews designed to provide reasonable assurance to the various stakeholders that the internal audit activity is effective and adds value. A quality assurance review focusing on investigation practices was initiated and final results of this assessment are expected to be finalized and reported on in the next fiscal year.

Governance and Reporting Structure – The Internal Audit Charter was amended to reinforce the reporting structure and independence by clarifying the direct reporting relationship of the Internal Audit Director to the Chancellor/Lab Director and that the systemwide position of Senior Vice President, Chief Compliance and Audit Officer reports directly to the Regents. The amendment also clarified that the Regents have the ultimate authority to approve or amend the systemwide audit plan. These amendments serve to reinforce Internal Audit's organizational independence and unrestricted access to leadership.

E. Statistics

This section provides summarized statistical information on the systemwide Internal Audit program for FY 2015-16. Resource and effort data is provided by type of audit service and across functional areas of the University, demonstrating the breadth of coverage. Management corrective actions are analyzed by functional area, severity, and status of corrective actions.

1. Resources

Table 1 – UC Internal Audit Program Staff Qualifications provides an overview of the experience, education and professional certifications of our staff.

UC Internal Audit Program Staff Qualifications

	FY16 Actual	Prior Year Actual
Average Years Total Audit Experience	16 years	16 years
Average Years UC Audit Experience	10 years	10 years
Average Years Audit Director Experience	25 years	26 years
Percent of Audit Staff with Bachelor’s Degree	99%	99%
Percent of Audit Staff with Advanced Degrees	33%	32%
Percent of Staff holding Professional Certifications	80%	81%

Table 1

Chart 1 – Audit Program Staff Years of Experience illustrates the distribution of experience in our audit staff. A significant gap in experience can be observed between our most senior and our least experienced auditors due in large part to a low turnover rate over the last 10-15 years. Within the next few years we are anticipating a significant loss in Directors and senior staff to retirement. As such, we have prioritized succession planning efforts such as training, development and delegation of responsibility in this year and the future.



n=105

Chart 1

Each year, approximately 85% of our staff time is allocated to direct hours. Direct hours include all effort spent completing our annual plan of audit, advisory, and investigation projects, as well as audit support activities such as IT support, systemwide audit support, audit planning and quality assurance.

Table 2 – Projects provides a summary of our direct hours including a breakdown by service line, number of completed projects in each area, and average hours per completed project. The number of completed projects increased by nearly 7% from 609 projects to 651 projects

Once again, we greatly exceeded our established benchmark for audit plan completion (70%) in FY 2015-16, with a systemwide completion rate of 97%.

Projects	FY16 Plan	FY16 Actual	Prior Year
Audits			
Audit Program Hours	97,173	95,100	93,979
Percent of total project effort	64%	65%	64%
Number of Completed Projects	225	285	246
Advisory Services			
Advisory Service Hours	37,321	38,860	34,642
Percent of total project effort	24%	26%	23%
Number of Completed Projects	102	276	237
Investigations			
Investigation Hours	18,473	13,814	18,480
Percent of total project effort	12%	9%	13%
Number of Completed Investigations	N/A	90	126
Total			
Audit, Advisory Services & Investigation hours	152,967	147,774	147,101
Audit Support Hours	14,466	14,262	14,741
Total Direct Hours	167,433	162,036	161,842
Summary Information			
Total Number of Completed Projects	N/A	651	609
Number of projects per auditor	N/A	6.2	5.8
Percent of Audit Plan Completed	100%	97%	96%
Productivity Percent	85.34%	85.37%	85.20%

Table 2

N/A Not applicable to plan data

Chart 2 – Effort Distribution by Service Type depicts the 7-year trend of hours devoted to audits, advisory services and investigations. The program hours dedicated to both audits and advisory services are on an upward trend. Meanwhile, in FY16 we observed a decrease in the hours spent on investigation work which can partially be attributed to an increase of investigation reviews performed by units outside of internal audit.

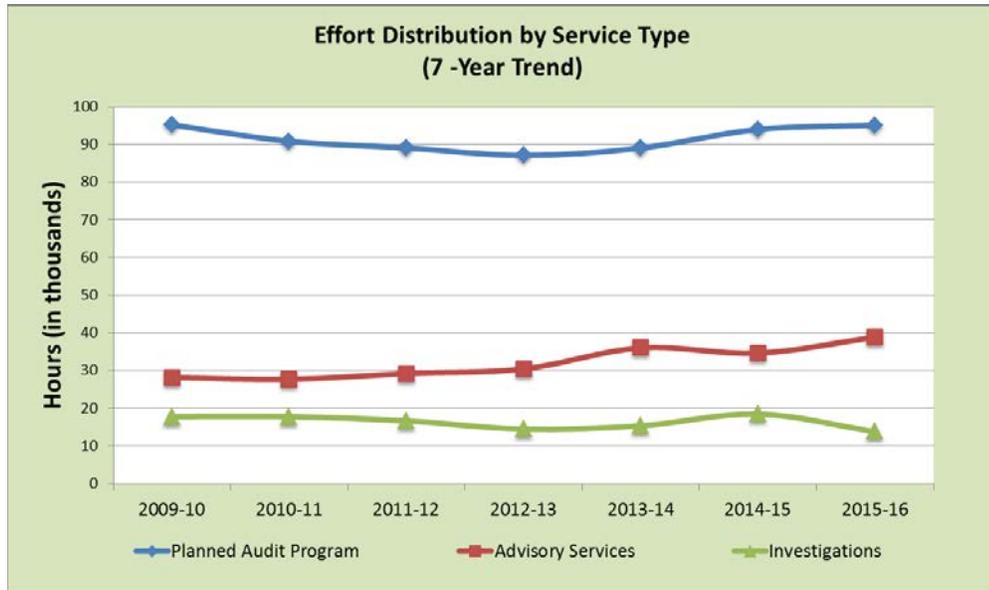


Chart 2

Chart 3 – Distribution of FY 2015-16 Hours depicts the breadth of project coverage of Internal Audit hours over the 15 major functional areas of the University. As in prior years, our effort remained concentrated in the areas of health sciences operations, financial management, information management & technology and academic units & programs. These categories comprised over half of our project effort.

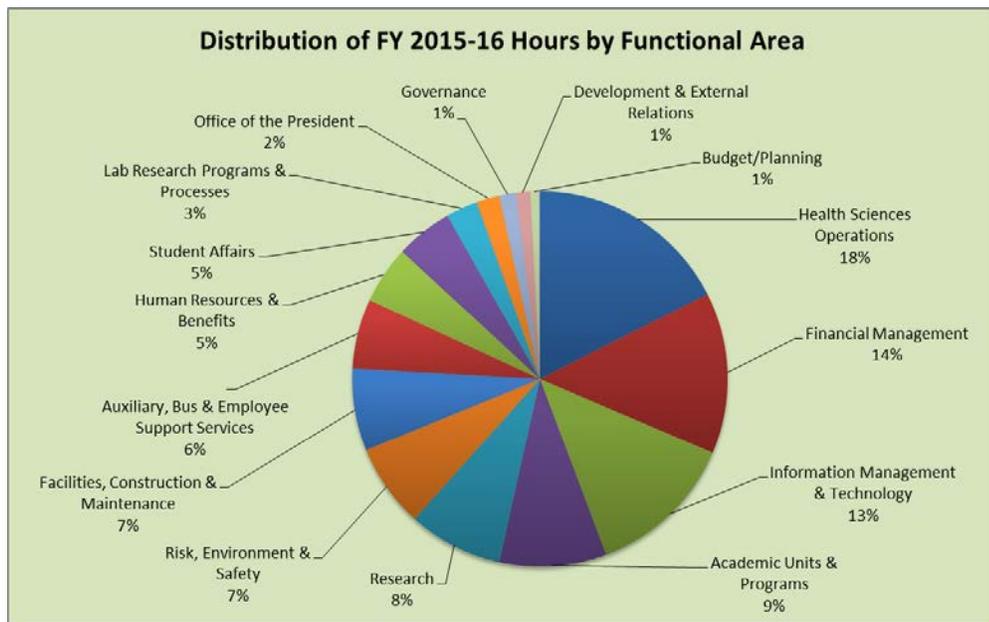


Chart 3

2. Management Corrective Actions (MCAs)

MCA Distribution

As previously indicated, our FY 2015-16 audit program work produced 393 audit, advisory service, and investigation reports resulting in 1,001 MCAs.

As shown in **Table 3 – Comparison of MCAs and Hours**, the distribution of MCAs correlates fairly closely with the effort expended across the functional areas, with the exception of a few areas. In the areas of Health Sciences Operations and Financial Management our reviews have yielded significantly more of MCAs per hour of effort than other areas, due to the fact that internal control issues in these areas can often be more readily observed and do not necessarily require detailed analysis. The areas of Academic Units & Programs, Research and Risk, Environment & Safety have yielded significantly fewer MCAs per hour of effort.

Comparison of MCAs and Hours for FY16

Functional Area	MCA %*	Hours %
Health Sciences Operations	33%	18%
Financial Management	22%	14%
Information Management & Technology	14%	13%
Academic Units & Programs	5%	9%
Facilities, Construction & Maintenance	5%	7%
Auxiliary, Bus & Employee Support Services	4%	6%
Research	3%	8%
Student Affairs	3%	5%
Human Resources & Benefits	3%	5%
Risk, Environment & Safety	2%	7%
Governance	2%	1%
Lab Research Programs & Processes	1%	3%
Office of the President	1%	2%
Budget/Planning	1%	1%
Development & External Relations	1%	1%

*n=1,001 MCAs

Table 3

Status of Completion of MCAs

MCAs are classified initially as open and are only moved to closed status after validation by auditors that the agreed-upon corrective actions have been taken or the associated risk has been adequately mitigated and sustainable improvement has been achieved.

The number of open MCAs decreased from 762 to 531 during FY 2015-16. A major contributing factor to this decrease in the inventory of open MCAs was due to a more proactive outreach with local management in an effort to heighten the awareness of timely and appropriate corrective action efforts.

Chart 4 – MCAs Added and Closed shows the number of MCAs added and closed each year for the past seven years. In FY 2015-16, MCA closures exceeded additions, resulting in a net decrease of 231 in the ending inventory of open MCAs.

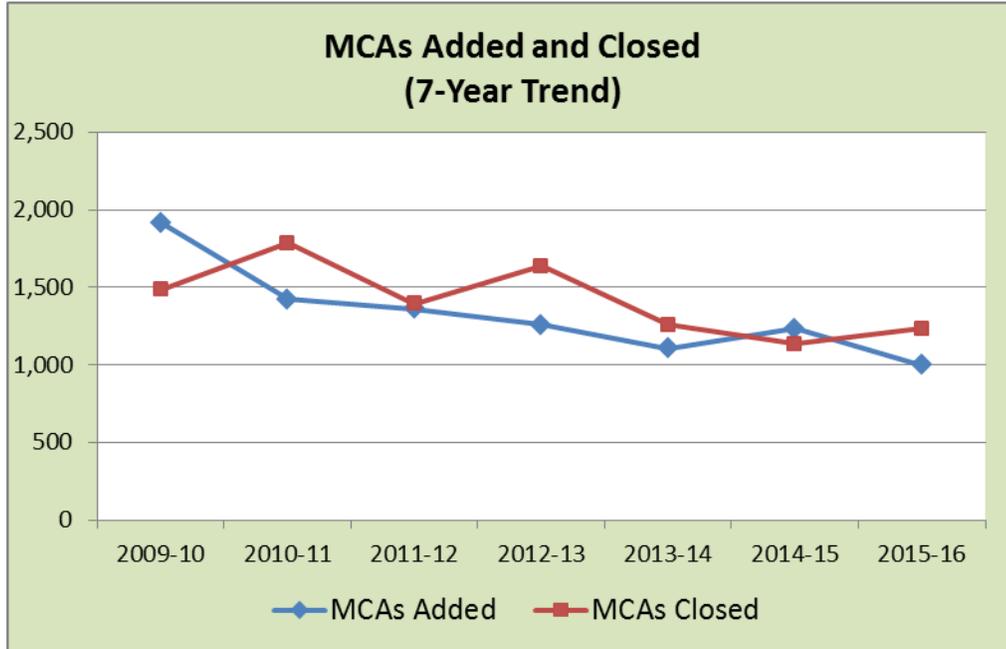


Chart 4

Chart 5 – Ending Inventory of Open MCAs shows the progress that has been made over the past 7 years in reducing the inventory of open MCAs. Since FY 2009-10, there has been a net decrease in open MCAs of 1,060 due to extensive efforts from Internal Audit and management to resolve outstanding audit issues.

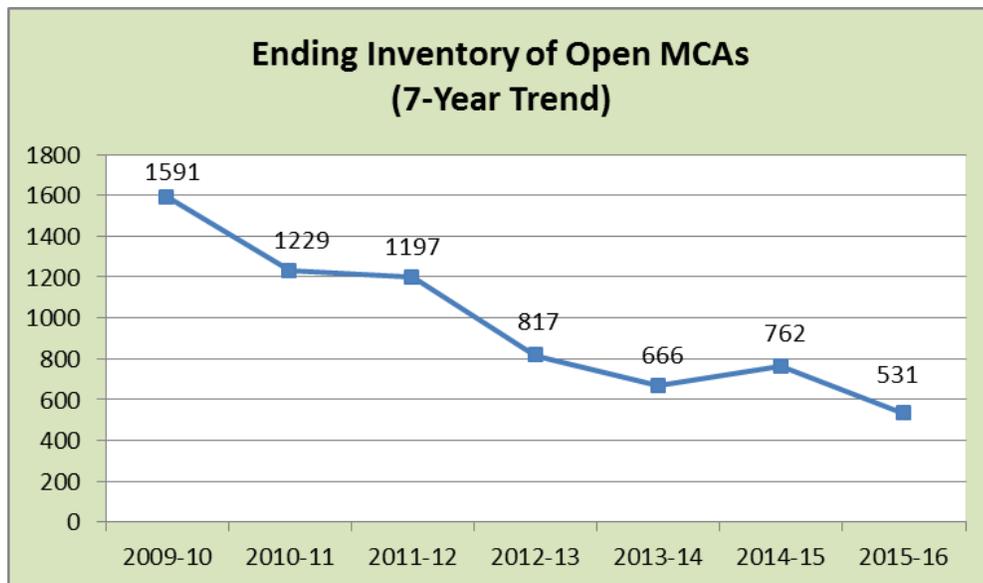


Chart 5

The systemwide Office of Audit Services routinely monitors MCAs across the system that have been open longer than 300 days from the date of the audit report. Many of the MCAs that are currently open the longest are actions that are complex, costly, strategic in nature, or time-consuming to implement. In nearly all of these cases, a short-term fix has already been implemented to address the noted control weakness. These longer-term risk mitigation efforts typically result in a “best practice” solution that is more efficient, reliable, and has a lower risk of failure than the short-term fix.

Chart 6 – Number of Open MCAs Over 300 Days Old shows the progress that has been made over the last several years in closing these older management corrective actions, due in large part to a formalized escalation process and enhanced oversight from the Regents Committee on Compliance and Audit. While these efforts have been largely successful, over the past two years we have observed temporary increases in the number of MCAs over 300 days old, indicating a need for increased diligence and oversight to ensure that corrective actions given the appropriate attention and reach timely resolution.

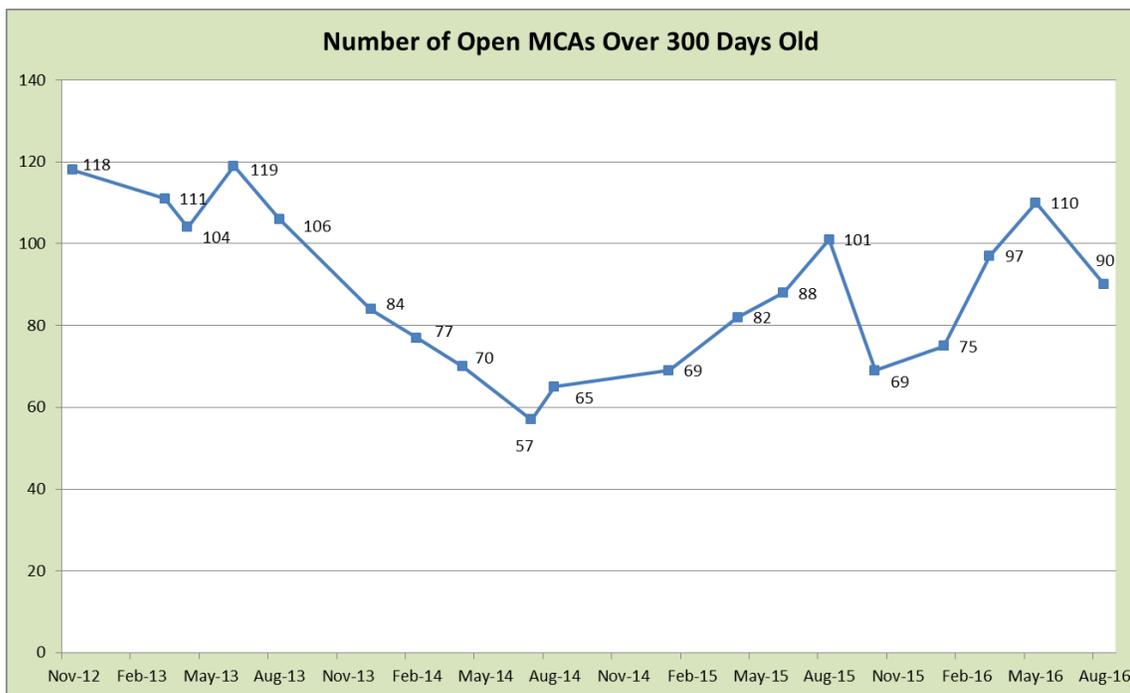
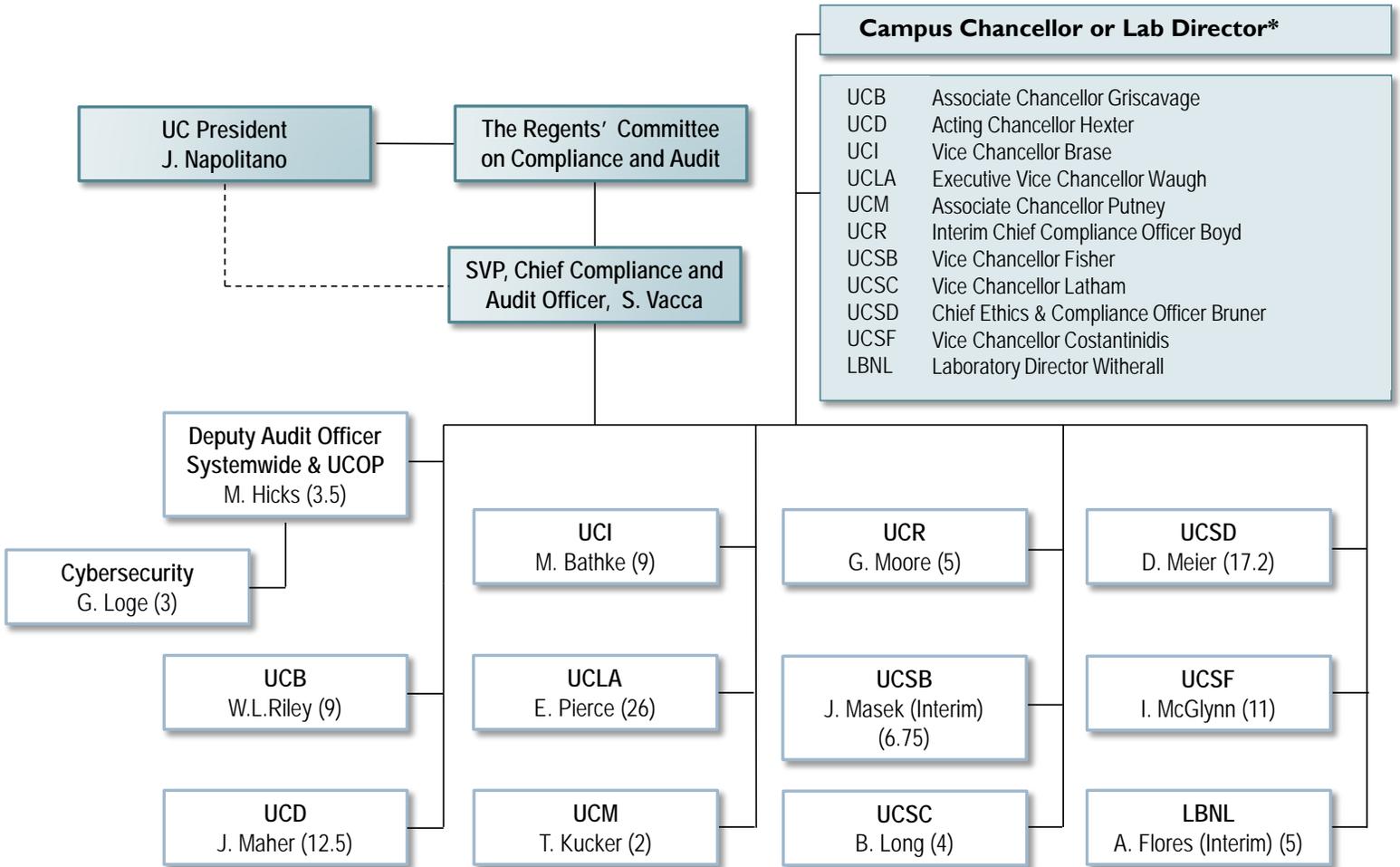


Chart 6

UC Internal Audit Organization Chart



Total Professional Staff, including the Director, is in parentheses. Total Authorized Professional Positions = 113.95 as of year end FY 2015-16

*** All Internal Audit Directors have a direct reporting line to the Chancellor/Laboratory Director. The Chancellor/Laboratory Director may delegate administrative oversight responsibilities to a Vice Chancellor or Associate Laboratory Director. These delegations are indicated in the box below "Campus Chancellor or Lab Director."**

APPENDIX 2 – FINAL AUDIT REPORTS ISSUED FISCAL YEAR 2015-16

Office of the President

ANR Desert Research and Extension Center (REC)
Clinical Enterprise Management Recognition Plan (CEMRP)
Office of the Chief Investment Officer (OCIO) Annual
Incentive Plan (AIP)
Office of the Chief Investment Officer (OCIO) Cash
Management
UCPath Application Security
Procurement Card and Travel and Entertainment Card
UCOP Network Security
Retirement Administration Service Center (RASC) Targeted
Processes

UC Berkeley

Alignment of Access, Administrative Roles and
Responsibilities, Authority, and Accountability for Research
Administration Post Campus Shared Services (CSS)
Implementation
Capital Renewal
Donor-Built Facilities
Human Resources – Hiring Practices
Human Resources – Employee and Labor Relations
Intercollegiate Athletics – Revenue Recognition
Participant Support and Payments to Human Subjects
Berkeley Education Alliance for Research in Singapore
Cloud Computing
Annual Report of Executive Compensation (Systemwide)
Revenue Generation
Sustainability Reporting
Space Sciences Laboratory
Research Data Management

UC Davis

Patient Registration
Minor Maintenance and Renovation
Graduate Studies Administrative Review
Office of Research
Financial Aid
Chancellor's Expenses (G-45)
Construction (Systemwide)
Police Department
Student Admissions by Exception
Effort Reporting/Cost Sharing
Student Health Center Data Security
Receivable Reconciliations
Epic Resolute Billing
Charge Capture Pathology Labs
Urology Clinic Operations

Rehabilitation Unit
Wasting of Narcotics
Disaster Recovery
Indirect Cost Recovery
Strategic Sourcing
Construction Contracts
Active Directory Security
IT Service Desk
Telecommunications

UC Irvine

Mesa Court Housing
Donated Art
Cashiering (Campus)
Construction (Systemwide)
Facilities Management (Campus)
School of Education
Overtime (2)
Executive Compensation and Chancellors Expenses
Radiological Sciences
Pharmacy Business Operations
Plastic Surgery
Referral Lab
Verano Place
Dermatology
Business Continuity Planning and Disaster Recovery
Research Imaging Center
Earth System Science NSF Awards

UC Los Angeles

Chase Child Life Program
Housing & Hospitality – Information Technology
Equipment Inventory
Associated Students UCLA Restaurants – Cooperage
Division
Associated Students UCLA – Human Resources – Payroll
Associated Students UCLA – Food Services – Point of Sale
Skilled Nursing Facility – Post Acute Care
Accountable Care Act Alliance
Radiology – Beach Imaging Center
Information Technology – Change Controls
IT Security – Advisory
Nutrition – Outsourced Food Vendors
Operation Mend - Advisory
Network Clinics – Peninsula Pulmonary
Affiliation Agreements – Entertainment Industry Medical
Group
Clinical Cash Handling

UC Los Angeles

Network Clinics – Torrance Obstetrics/Gynecology Clinic
Facilities Management – Contracting and Project Management
Facilities Management – General Operations (Design, Project Management & Operations)
Facilities Management – Equipment Inventory Review
Facilities Management – General Operations
Capital Programs – Time and Attendance
Capital Programs – Materials and Equipment
Capital Programs – Project Closeout Process
Capital Programs – Recharge Process
Events & Transportation – Parking Permit Inventory
Events & Transportation - Cashiering
Housing & Hospitality – Bruin Café - Cashiering
Housing & Hospitality – Information Technology
Housing & Hospitality – On-Campus Housing Maintenance Shop
Housing & Hospitality – UCLA Catering
Housing & Hospitality – Vending Services Procurement and Inventory
Housing & Hospitality – Dining Services Purchases – Non-food
Campus Service Enterprises – Mail and Distribution Services
UCPD – Equipment Inventory and Evidence Management
Human Resources Payroll Center – North
UCLA Foundation
Athletics
Executive Compensation – Chancellor Expenses (G-45)
Executive Compensation – Annual Review Executive Compensation (AREC)
School of Arts and Architecture (UCLA Arts)
UCLA Luskin School of Public Affairs
Housestaff Duty Hours
Fleet and Transit – Shop Operations
STAR Incentive Award Process
Community Programs Office – Self-assessed Student Fees
Continuing Education of the Bar (2)

UC Merced

IT Disaster Recovery Planning
Laboratory and Field Safety
Records Management
Human Resources – Leaves and Workers Compensation
Purchase Card and Low Value Purchases
Financial Aid and Scholarships
Executive Compensation (Systemwide)
Construction (Systemwide)
Dining Services – Control of Payments and Inventories

UC Riverside

Agricultural Operations – Site Visit
Physical Safety and Security
Annual Analytic Review and Fraud Detection
Senior Management Group (SMG) Travel and Entertainment Construction (Systemwide)
Agricultural Operations Site Visit Follow-Up

UC Santa Barbara

Delegated Procurement
IT: Financial System Implementation Project (FSIP) – Limited Scope Progress Review
UC Santa Barbara Extension
California Nanosystems Institute (CNSI)
Stewardship of Student Funds
Lab Safety: Settlement Compliance
Construction (Systemwide)
Long Range Development Plan (LRDP): Reporting and Mitigation Monitoring
IT: Information Security – North Hall Data Center Physical Security
Executive Compensation: Annual Report on Executive Compensation (AREC) (Systemwide)
Credit Cards: Payment Card Industry (PCI) Compliance
Research Conflict of Interest

UC Santa Cruz

IT Cloud Computing
Industrial Control Systems (ICS) – Security and Management
Safety of Faculty and Staff on Field Research Assignments
New and Emerging Strategic Agreements Governance
Construction (Systemwide)
Campus Administrative Policies, Procedures, and Guidance (PPG) Governance
Student Fee Governance

UC San Diego

Conflict of Commitment/Outside Professional Activities
Joint Ventures/Affiliations
Information Technology Governance and Planning
Gift Fund Expenditures
Clinical Research Billing Systems
Surgical Pathology Billing Review
Epic Charge Router
Charge Description Master: Research Rate Review
Claim Denial Management
Faculty Compensation
Vendor Hosted Applications
Skaggs School of Pharmacy and Pharmaceutical Sciences
Executive Accounts
Health System International Patient Services Program

UC San Diego

Cashiering and Sub-Cashiering
Drawdowns (Cash Management)
Advancement – Gift Processing
Recreation – Business Process Review
Clinical Partnerships – Site Operations Reviews
Gastroenterology/Endoscopy Services
Department of Radiation Medicine and Applied Sciences
Center for the Future of Surgery
Temporary Employee Services Timekeeping and Recharge Practices
Vice Chancellor Student Affairs – Executive Accounts
Vice Chancellor Equity Diversity and Inclusion Executive Accounts
Center for Occupational and Environmental Medicine
Alzheimer’s Disease Cooperative Study (ADCS) Lilly Award
Alzheimer’s Disease Cooperative Study (ADCS) Advance Payments
Health System Lease Agreements

UC San Francisco

Clinical Trials Set-Up
Pharmacy Billing
Hospital Billing – Self-Pay Billing Office (SBO)
Benioff Children’s Hospital Oakland (BCHO) Privacy Review
Background Check – Live Scan Analysis
Cloud Computing
Benioff Children’s Hospital Oakland (BCHO) – Access Controls
Third Party Network Access
Health Sciences Compensation Plan
Construction
Executive Compensation
KPMG IT Remediation
Clinical Funds Flow
Clinic Operations
Data Warehouse Management
Mission Bay Hospital – EMTALA Review
Human Resources Operations/Office of Federal Contract Compliance Programs (OFCCP)
Sterile Processing Department – Time Reporting and Payroll Processing
UCSF Benioff Children’s Hospital Oakland (BCHO) – Clinical Lab Billing
Data Analytics – Drug Diversion Detection
Biomedical Devices (Medical Center)

Lawrence Berkeley National Laboratory

FY15 Cost Allowability
F&M Project Post-Implementation
OMB Circular A-123 IT Controls
Construction
Home Office Costs
CY14 Report on Executive Compensation
Technology Transfer
Accenture Subcontract
Guest House
Work, Planning, and Control Activity Manager

UCOP FY2015-16 Internal Audit Highlights

APPENDIX 3 – UC LOCATION INTERNAL AUDIT HIGHLIGHTS

The following reports prepared by UC location Internal Audit departments provide a brief summary of key departmental accomplishments for FY2015-16 as well as local challenges and opportunities for the future.

UCOP FY2015-16 Internal Audit Highlights

Key Accomplishments

- UCOP Internal Audit helped support a successful initial deployment of UCPATH at UCOP through delivery of an operational readiness assessment and a review of application security prior to launch. These reviews provided timely independent analysis and feedback on the readiness of internal controls and operations prior and provided additional assurance to management that significant project risks were being adequately mitigated.
- Internal Audit was requested to conduct several advisory services to the Retirement Administration Service Center (RASC) that provided them valuable information and recommendations to improve business operations. Most notably, Internal Audit developed a comprehensive risk assessment model for the RASC that summarized operational functions and their corresponding risk and the level of current controls. This review provided the RASC recommendations and guidance on how to implement a risk-based approach for reviewing transactions while improving efficiencies related to retirement payouts to retirees.

Challenges

- Our continued outreach to clients has seen an increased request for advisory services, however, we are faced with the challenge of completing our audit plan while trying to accommodate our clients' requests.
- Increased external audit activity, particularly from the California State Auditor, has had a significant impact on our resources and ultimately may affect the completion of planned audit and advisory projects.
- Although the co-sourcing arrangement of internal audit activities has been very successful, there are naturally some challenges related to institutional knowledge, continuity and knowledge transfer due to the high number of staff from the co-sourced services provider being used on various projects compared to an internal team.

Opportunities

- UCOP Internal Audit has developed a strong working relationship with its peers in Compliance and Risk Services and has already made significant progress in coordination of risk assessment and mitigation efforts. We look to continue to leverage this relationship to help drive systemwide initiatives to further advance risk coordination efforts such as the development of a common risk framework and taxonomy.
- Our readiness assessment for the UCOP deployment of UCPATH has the opportunity to provide a blueprint for value-add internal audit involvement in future deployments at the campuses.
- The implementation of UCPATH will serve as a key opportunity to leverage data analytics for controls monitoring in payroll across the system due to consistency in payroll data and centralization of payroll services at the UCPATH Center. UCOP Internal Audit can assist in driving this effort, being the first location to go live with UCPATH.

UCB FY2015-16 Internal Audit Highlights

Key Accomplishments

- 95% of service plan projects completed. One project not completed due to underperforming new staff auditor who was subsequently released during probationary period.
- We continue to expand our advisory service projects including a significant review of a unit that had traditionally been viewed as underperforming. We advised leadership as well as unit management on options to restructure their organization and revisit funding sources in a manner that allows them to be a net positive contributor to campus finances.
- Development and application of proactive data analysis continues in our audit planning and fieldwork. We continue to improve our ability to query, extract, and analyze larger populations of data in order to have a greater understanding about trends and emerging risk areas as opposed to simply selecting random samples.

Challenges

- 100% turnover in all senior leadership positions (Chancellor, Executive Vice Chancellor and Provost, and all eight Vice Chancellors) in FY15-16 and announced to date in FY16-17. Two key positions (EVCP and VC Administration and Finance) have open searches that will be postponed until after the appointment of a new Chancellor. Audit and Advisory Services' (A&AS) ability to successfully partner and advise senior management is negatively affected in the near term by the turnover.
- As a part of the Chancellor's Immediate Office, A&AS is being asked to share in budget reductions, negatively impacting the ability to complete planned projects and fill vacant positions. The number of staff auditors has decreased by 33% from six to four in two years, without budget authority to fill open positions.
- The tight Bay Area labor market for experienced internal auditors has meant that our salary ranges are not competitive to attract quality candidates. The most qualified candidate in our recent search significantly underperformed once hired and was terminated during their probationary period.

Opportunities

- Given our deep understanding of Berkeley's institutional history and culture (i.e. what has worked well in the past, or not) as well as an understanding of best practices at other peer institutions, A&AS is well positioned to partner and advise incoming leaders and to reduce the steepness of the learning curve so that they can be immediately successful and impactful.
- With the severity of the campus budget situation in mind, management is more open to think about creative but sustainable ways to leverage the sources of revenue and costs across the campus. A&AS is well positioned to partner in this thought process given our access to peers at other campuses as well as our work in external benchmarking and process improvement analysis.
- With the current staffing structure the campus audit executive also oversees certain risk management functions. She is working to evaluate and implement models through which audit and risk management can share synergies and efficiencies while still maintaining the independence of internal audit.

UCD FY2015-16 Internal Audit Highlights

Key Accomplishments

- Completed 100% of the planned audits for this fiscal year and the number of audit projects including audits, advisory services and investigations was consistent with the prior 4 years.
- Reviewed areas of strategic significance which will result in management actions to improve systems and processes. These areas included
 - Effort Reporting and Cost Sharing (with the potential for shifting potentially a few million dollars in faculty salaries to outside funding agencies.),
 - Academic Advising (improve feedback on the success of advising being managed by each school and college and implement a pilot program of early warning for students at risk for scholastic deficiency), and
 - Student Health Center Data Security (which will address gaps in incident response planning, vulnerability management, logging, firewall and disaster recovery by tapping into existing expertise on campus.)
- Management took action, as a result of our audit work, allowing us to close 279 management corrective actions (MCAs) related to financial management, health science operations, and information management and security.

Challenges

- Each and every year areas must be identified during audit planning where we can add value. The areas for review noted in our key accomplishments for last fiscal year were at University leadership's suggestion due in part to their confidence in our ability to perform these reviews and help their managers make this a better University.
- It is natural for auditors to want to continue an audit as their understanding of the operation grows but studies have shown there are diminishing returns as audit work progresses. Initial project budgets are established on the best guess of audit leadership but need to be evaluated and shortened or lengthened as the audit progresses to optimize value add.
- Gaining confidence in auditees that our work will be collaborative and forward looking (how can we make this process better) rather than punitive. Cooperation and help from auditees allows us to be more efficient and effective in our work but many clients' first reaction is apprehension.

Opportunities

- Continue to communicate prior successes and increase management confidence in our ability to add value so that they will help us identify projects that will add significant value.
- Reinforce to management that auditors are process experts and can assess controls to ensure any objective is met efficiently and effectively rather than just providing assurance that assets are protected and policy and procedure or regulations are being followed.
- Train more of our audit staff on the use of data analytic tools. Many of the most significant audits over the last several years (such as the audit of Strategic Sourcing) resulted from the auditor's ability to mine and analyze data rather than just sample a relative few transactions.

UCI FY2015-16 Internal Audit Highlights

Key Accomplishments

- Identified unauthorized supply and material purchases being reimbursed as disbursement vouchers that should have been purchased with a PALCard. Discussed this with Accounting & Fiscal Services and PALCard management to help reduce the number of disbursement vouchers/unauthorized purchases.
- Successfully executed the FY16 Audit Plan by engaging in 79 projects and consultations, issued 24 audit and advisory services reports and 8 investigation reports, which resulted in 111 written management action plans to address the issues noted during the reviews.
- Increased the use of data analytics in the audit process, which has increased efficiency and productivity in the audit process by homing in on areas of risk and identifying anomalies and trends. By incorporating data analytics tools, audit staff are able to do with less and drill down and test transactions, data sets, and processes once the risk areas are identified.

Challenges

- Increasing retention and reducing turnover. Staffing issues continue to have an impact on the audit plan (coverage of high risk audit topics are reduced and cycle times for key business areas are increased).
- Allocating limited resources to meet the needs of the University in an expanding risk universe.
- Keeping up with changes to internal controls due to system implementations or other strategic projects.

Opportunities

- Partnering with Risk Services and Compliance to integrate and leverage risk assessment activities and reduce duplication.
- Aligning the audit plan with the University's business objectives and strategic plan.
- Share and promote best practices throughout the University.

UCLA FY2015-16 Internal Audit Highlights

Key Accomplishments

- Audit and Advisory Services (A&AS) management believes that the audit program met the departmental performance goals and provided value-added services that assisted University management in the discharge of its administrative, legal, and fiscal responsibilities. For fiscal year 2015-16, our overall completion rate for the highly ranked risks was over 80%. Additionally, our coverage of the second- and third-tier risks was more comprehensive than in previous years. A&AS was able to achieve a 98% completion rate of our audit program.
- During fiscal year 2015-16, A&AS monitored progress in UCLA management's completion of agreed-upon management corrective actions (MCAs) addressing control weaknesses reported in our internal audit and advisory service reports. A&AS made 282 recommendations and 96% of those recommendations were accepted by management. In addition, A&AS closed 258 MCAs from prior audit reports.
- A&AS continued to have a robust external audit coordination function. A&AS participated in 26 external audits during fiscal year 2015-16. Immediately after notification of an impending audit, the External Audit Coordinator facilitates the audit by guiding departments on the necessary preparation steps, contacting central departments whose participation may be required, and working with the assigned agency representative.

Challenges

- To reduce overall exposure to security breaches, UCLA has implemented campus-wide initiatives, such as organizational and departmental information security assessments; application-level vulnerability scans; and policy, procedure and governance changes. Technical vulnerabilities are still present in applications, systems and networks. The decentralized nature of campus-wide UCLA computing offers opportunities for unwanted intrusion. UCLA's extensive storage of personally identifiable information (PII) and protected health information (PHI) requires added protection from inappropriate release, theft, or misuse. A&AS continues to focus efforts on building audit staff expertise to audit, advise on, and identify these risks so that management can reduce or eliminate them.
- A&AS must continue to recruit well-qualified staff and to build existing staff's knowledge of UCLA's operations, as more experienced staff, with many years of audit experience and institutional knowledge, retire.
- An on-going challenge is keeping abreast of all the regulatory and compliance issues facing UCLA, while ensuring that audit resources are used efficiently and effectively and that the audit plan adequately addresses the high risk areas.

Opportunities

- UCLA Health and campus information technology services continue their efforts to build a robust information security architecture and infrastructure to protect UCLA against intrusion and hacking attempts. A&AS will continue to participate in various committees where progress and initiatives are shared, and will build a deeper set of audit procedures that will ultimately be used to test controls in decentralized units.
- A&AS will continue to build its data analytics capabilities to help quantify issues, strengthen audit coverage, and gain a more comprehensive understanding of risks.
- A&AS will increase staff's visibility on campus and participation on committees to help build relationships with key stakeholders and increase the staff's institutional knowledge.

UCM FY2015-16 Internal Audit Highlights

Key Accomplishments

- Internal Audit identified areas for improvement for the recently established Campus Safety department. The recommendations included improvements in laboratory safety and strategies for reducing workers' compensation insurance costs.
- Based upon Internal Audit recommendations, the campus completed important audit management corrective actions that improved processes and compliance.
- Internal Audit worked closely with Risk Services and Compliance to complete risk workshops that brought together more than eighty employees from different schools and departments. Practical measures for better managing campus risks were discussed.

Challenges

- With the rapid growth and constant change at UC Merced, it is a challenge for a small Internal Audit department to be part of the strategic discussions and decisions that will have a long-term impact on the campus. Internal Audit has focused on providing risk assessments, audits, and advisory services to help improve processes, which promote the campus vision and mission.
- An increasing amount of time is required to coordinate external audits (California State Auditors, etc.). With the limited staff time, external audit coordination can disrupt other projects and priorities.
- As a result of turnover and insufficient staffing in some departments, UC Merced does not currently have employees managing some important risk functions, such as the business continuity and disaster recovery plans. When Internal Audit identifies inadequate risk mitigation and poor controls, corrective actions are sometimes put off for long periods of time until the positions are filled.

Opportunities

- Internal Audit has gained expertise with the campus financial system and will begin providing quarterly financial analysis and the results of controls monitoring to campus leadership. This will continue to improve the risk assessment process.
- Coordination with UC Merced's Ethics and Compliance function continues to improve the identification and reporting of risks.
- As part of the UC Merced Office of Compliance and Culture, Internal Audit continues to provide useful advisory services and participate in investigations in areas which a more traditional Internal Audit department would not have exposure to. Internal Audit can continue to provide increasing benefit to the campus and improve the overall identification of emerging risks.

UCR FY2015-16 Internal Audit Highlights

Key Accomplishments

- UCR Data Analytics Process - Audit and Advisory Services (A&AS) has conducted proactive risk-based and continuous auditing reviews through comprehensive data mining, analytic reviews, and identification of transactional outliers. In FY 2016, significant control concerns as well as process inefficiencies were identified in several areas and A&AS continues to provide training and guidance to other UC Audit departments as well as UCR department personnel in order to enhance their analytic skills and to provide value-added audit services at their respective campuses and at the UCR campus, respectively.
- Agricultural Operations (Ag Ops) site visit audit & follow up – UCR A&AS performed multiple audits/site visits on the Department of Ag Ops and identified control weaknesses, compliance issues and safety concerns. The audits enhanced the culture of safety and awareness and collaboration among campus departments and Environmental Health & Safety (EH&S); and established a Safety Committee to develop and/or modify Inspection Checklists, conduct safety inspections, training, and hazard assessments.

Challenges

- Staffing – The UCR 2020 Path to Preeminence plan calls for substantial increases in the number of faculty, students, and Research and Graduate Programs. The challenge for A&AS is to continue to provide excellent value added service to the UCR campus at the current staffing level.
- Student Internship Program (Unpaid) – Because of new CPA Licensure requirements, many UCR student interns are taking 16-20 units at UCR plus additional units/classes at other colleges and an online university for a total of 27-30 units a quarter. Many of the top student intern candidates have to choose between an unpaid internship and a part-time job. UCR is challenged to fund the UCR A&AS student internship program so as to retain the top student intern candidates.

Opportunities

- Data Analytics – UCR A&AS continues to improve and refine the data analytics process, working toward the capability to continuously audit systems and identify control weaknesses and transactional outliers. In addition, A&AS is working to obtain Open Database Connectivity (ODBC) system access in order to improve the efficiency and effectiveness of the data analytics and the risk-based audit process.
- Systems Implementations – UCR A&AS will continue to partner with campus system implementation work groups to verify the accuracy of converted and/or interface data as well as ensure risks are identified and controls are designed and implemented to mitigate those risks. A&AS is in a position to identify new system controls/functionality/reporting tools/ during system upgrades.
- Organizational Excellence (OE) Initiative – UCR A&AS will continue to work with the OE teams and provide insight in areas where campus departments can improve operational efficiency and effectiveness, reduce waste, and streamline business processes using the Lean Six Sigma principles.

UCSB FY2015-16 Internal Audit Highlights

Key Accomplishments

- Completed 19 of the 21 projects, or 90%, of the department's amended audit services plan, and finalized and issued four projects from the prior year's plan.
- Focused efforts on audits and advisory service projects that address high-risk areas and assist in management initiatives to increase efficiency and effectiveness. These efforts included audits and advisory projects in support of the implementation of new enterprise systems; projects designed to improve campus practices in information security and sponsored research; and other projects designed to increase adherence to various compliance requirements.
- Continued outreach efforts on the subjects of ethics, accountability, and fraud through a series of presentations to staff in campus training programs, including the Controller's Financial Management Certificate Program, the Office of Research's Sponsored Projects Training for Administrators in Research (STAR), PPS (Personnel and Payroll System) Basics, and other groups.

Challenges

- Our main challenge at the local level is the level of funding and staffing committed to all audit, compliance, and investigative activities. The department is called on to help out in various areas, but the size of the department's budget and staff makes it difficult to develop and retain the technical capabilities required to address campus needs and risks, a problem exacerbated by recruitment difficulties inherent in the local labor market.
- The resources needed to respond to audits by external agencies are substantial. The campus was in scope for two California State Auditor audits during 2015-16; the level of campus and department effort required for two state audits planned for 2016-17 is not yet clear.

Opportunities

- Audit and Advisory Services has become a key collaborator in campus efforts to modernize the IT infrastructure and become more efficient. Our fiscal year 2016-17 audit services plan reflects a continued emphasis on value-added work in support of these initiatives, including audits and advisory projects designed to support the implementation of new systems, including UCPATH.
- Audit and Advisory Services has identified an opportunity for the department to promote awareness of ethics as an essential element of the organization's internal control structure.
- The department's team members participate enthusiastically in training and development activities, resulting in opportunities in organizational development despite the limited size of the department's budget and staff.

UCSC FY2015-16 Internal Audit Highlights

Key Accomplishments

- Identified the need for increasing governance and focus over non-traditional revenue development and formalizing Campus Policy and Guidance Implementation.
- Provided assurances to senior campus leadership that expenditures spent in support of the Slug Support Program were appropriate, and the program was effective in assisting students experiencing financial difficulties, thereby supporting student success.
- Supported systemwide audit efforts as co-administrator of systemwide audit management system (TeamMate) in providing backup and training as needed; supported the UC Chief Compliance and Audit Officer by acting as UC audit representative at LBNL Contractor Assurance Council and LLNL/LANL Ethics and Audit Committee Boards.
- Successfully executed the FY2016 internal audit plan.

Challenges

- Budget impairment - Lack of campus administrative resources and under-resourced audit function
- Manual administrative processes impact the data analytics program
- Lack of formalized campus administrative policy, procedure, and guidance

Opportunities

- Increase use of data analytics (limited by lack of automated systems)
- Increase partnering and leveraging of campus and University resources
- Formalize and expand our student intern program

UCSD FY2015-16 Internal Audit Highlights

Accomplishments

- UCSD Audit & Management Advisory Services (AMAS) completed 93 percent of the approved audit plan for FY2015-16 by the end of the fiscal year, which is consistent with prior years.
- AMAS incorporated data analytics into a number of audit and advisory service projects to leverage existing data repositories and provide a more compelling basis for conclusions reached and the need for corrective actions.
- Campus risk assessment activities were further integrated in the form of enhanced AMAS coordination with the Health Sciences Corporate Compliance Program (and development of work plans), and via participation on the Risk Steering Committee recently established by the Chief Ethics and Compliance Officer (CECO).

Challenges

- Supporting the high volume and broad scope of external audits in a coordinating role continued to impact AMAS resources, partially as a function of the growth in our sponsored research portfolio (approximately one billion dollars per year).
- Professional development and succession planning continued to be a focus to ensure we have the needed technical subject matter expertise to complete planned projects, and to internally grow future leaders of the department.
- As the Office of Ethics and Compliance (OEC) recently hired two new investigators, AMAS continued supporting the Local Designated Official (LDO) in the triage of new cases, and in starting the transition of administrative oversight and reporting processes for investigations to the OEC.

Opportunities

- As the AMAS resources dedicated to supporting the investigations function are reduced in the current fiscal year, this will provide AMAS the opportunity to offer more proactive advisory services to management.
- Changes in campus leadership continue to offer AMAS opportunities to promote our services (especially advisory service projects) via introductory meet-and-greet sessions.
- The Risk Steering Committee represents an opportunity to share narrow (client-specific) audit results, and have a discussion and assessment as to whether certain risks identified may be representative of broader risks that should be addressed at a higher level and/or different approach.

UCSF FY2015-16 Internal Audit Highlights

Key Accomplishments

- Expanded scope of services to UCSF Benioff Children’s Hospital Oakland (BCHO), Children’s Hospital Oakland Research Institute and UCSF Benioff Children’s Physicians.
- Significantly increased the number of advisory projects to address risk proactively.
- Facilitated cross-functional discussions and streamlined processes to eliminate duplication of efforts among departments.
- Aligned processes between BCHO and UCSF to drive organizational integration.
- Benchmarked operations and practices from other similar organizations and shared good practices with UCSF leadership.
- Updated risk assessment approach to align with industry practices; formed risk partners discussion forum to enable ongoing collaboration on emerging risks areas.
- Launched education forums and training tools to raise awareness of risk topics across UCSF community
- Initiated policy changes directly with UCOP that have a systemwide impact.

Challenges

- Providing adequate coverage in all risk areas identified due to limited resources.
- Attracting and recruiting professionals with appropriate skills and specialized competencies due to the high cost of living in the San Francisco Bay Area.
- Keeping pace with the organization’s rapid expansion of services and affiliations with external entities and managing emerging risks arise from external forces.

Opportunities

- Expansion of data analytics capability – automate controls where possible to develop real time risk indicators and notification.
- Partnering with other UC campuses and other similar organizations in sharing good practices and benchmarking of operations
- Collaboration with other UC campuses to share talent and specialized skillsets.
- Increasing demand of advisory services.
- Process improvement opportunities in streamlining processes to enhance efficiencies.
- Continue to support strategic alignment efforts to achieve organizational objectives.

LBNL FY2015-16 Internal Audit Highlights

Key Accomplishments

- Revamped risk assessment primarily by focusing on feedback from Deputy Directors and Business Managers. Additionally, updated the audit risk universe to include emerging risks discussed in recent external audit reports as well as professional publications. Internal Audit's (IA's) risk assessment also included strategic and institutional risks described in the Annual LBNL Plan and LBNL-UC Institutional Assurance Plan.
- Refocused audit scope and test work on current projects to address primary risks within subject area, in order to be more efficient and effective.

Challenges

- IA resources decreased by 25% when the Department Head retired in Q3 and the Group Lead took over the audit leadership in an interim capacity. This had an impact on IA's completion of the FY16 Audit Plan. To mitigate the decrease in audit resources, IA supplemented its staff by co-sourcing through its audit resource pool that included audit consulting firms and former audit managers from UC and Department of Energy national labs. Mitigation included replacement of a project and deferment of a project to FY17.
- The number of DOE-required audits has increased in the last few years, which leaves fewer remaining resources to address more significant issues.

Opportunities

- IA began socializing the approach towards a flexible and rolling audit plan to adjust the mix of audit projects depending on changing risks and priorities during the year with key stakeholders, i.e., DOE, Operations leadership.
- IA reached out to Operations division directors to get feedback on their risks and concerns, and seek mutual opportunities between IA and their division to plan specific reviews that would address these risks. Division directors found this as beneficial to their divisions and suggested that IA continue this interface with them during the year.